

State Economic & Revenue Outlook

Presented to
Higher Education Coordinating Board
(HECB)

Arun Raha
Executive Director

March 26, 2009



Washington State Economic and Revenue Forecast Council

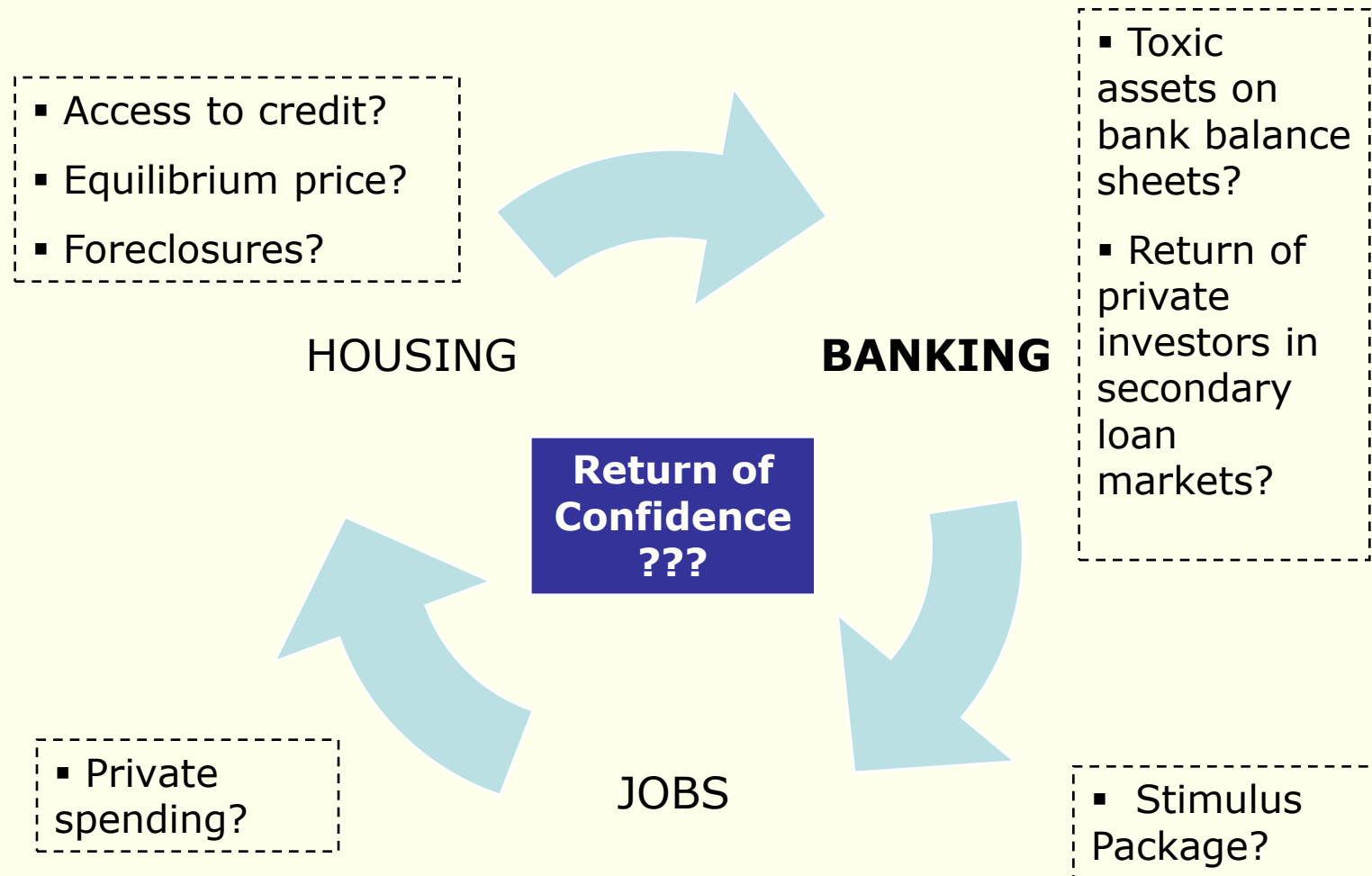


Summary

- The U.S. economy has been in recession since December 2007
- WA lagged the U.S. into recession but will come out of it at about the same time
- The key to both a national and state economic recovery is a return to normalcy in credit markets, and a return of confidence
- State revenues are dependant on consumer expenditures, so revenues will recover only when consumer spending recovers



The banking sector holds the key to the recovery



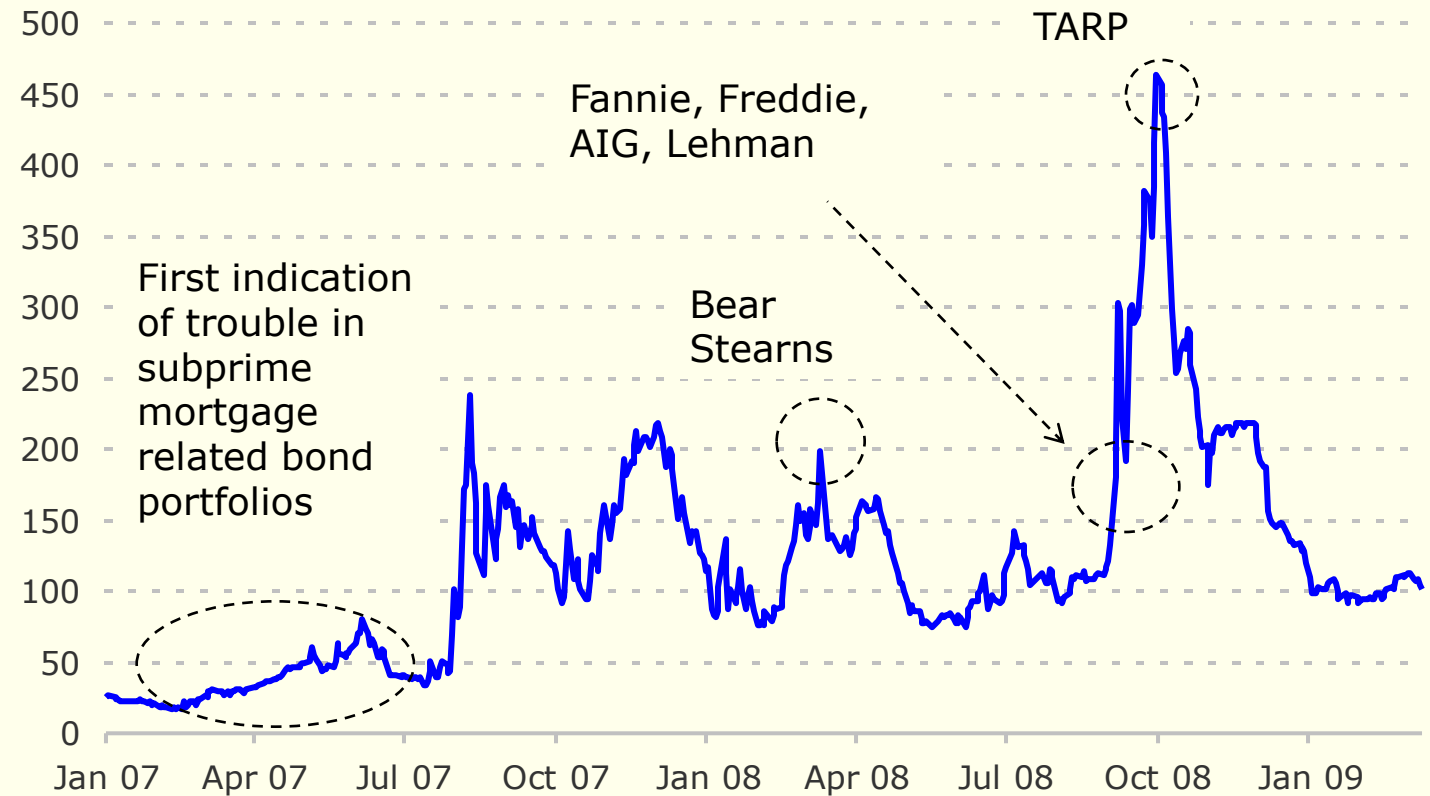


Inter-bank lending appears to have stabilized

The spread indicates the premium banks have to pay to borrow from each other

USD 3m LIBOR - 3m US T-bill Spread

Basis Points



Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through March 20, 2009

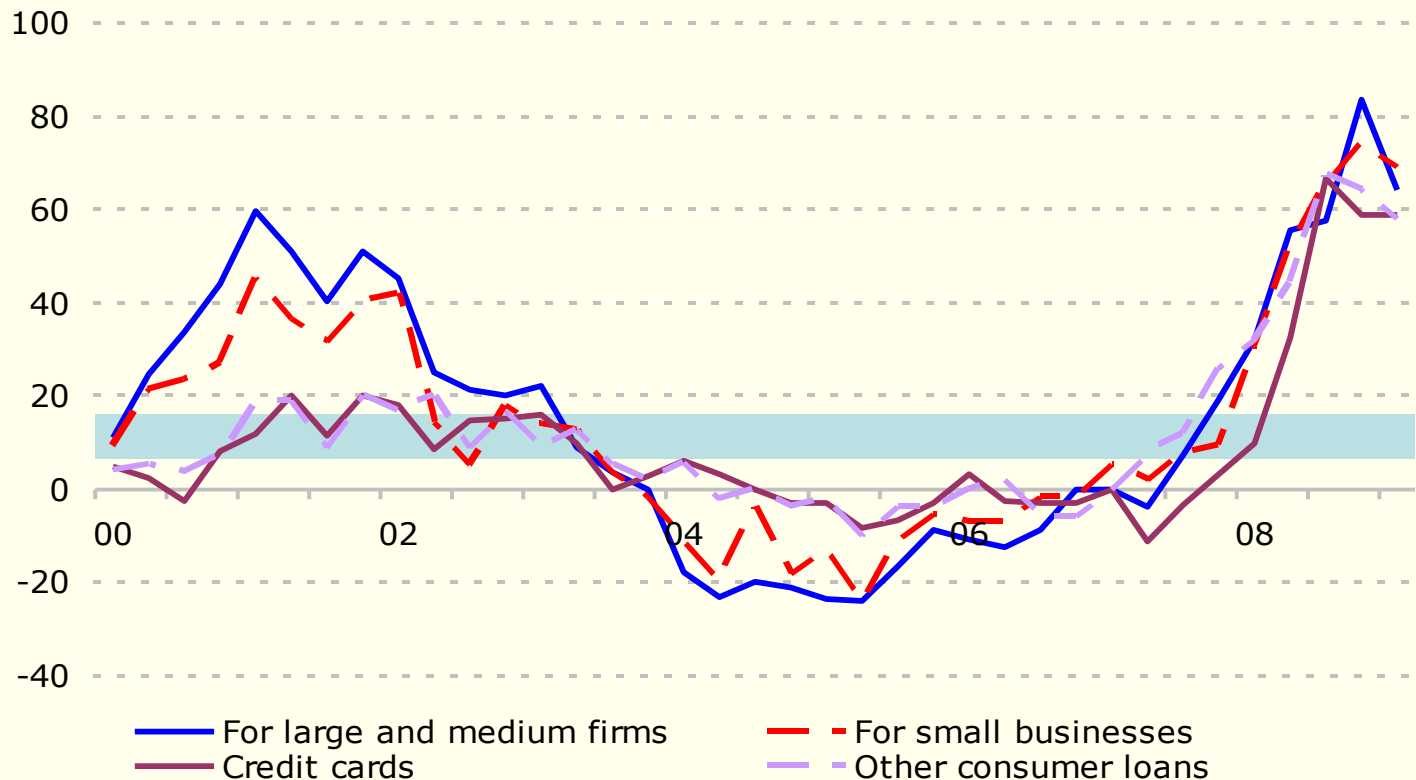
Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009



Lending to businesses and consumers remains tight

Net Tightening minus Easing

Percent



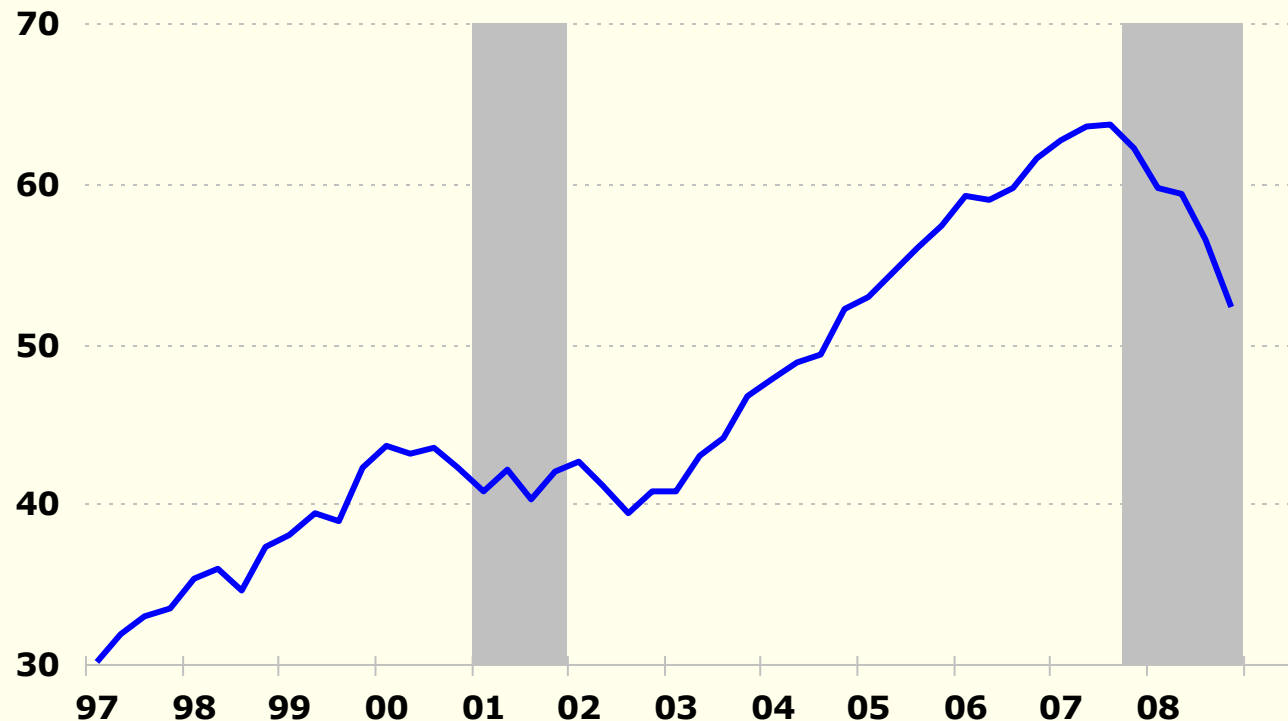
Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey, data through January 2009 survey



Household net worth has declined rapidly

Household net worth at the end of 2008 was down 18% from its peak in late 2007

USD Trillions



Source: Global Insight, data through 2008 Q4

Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009



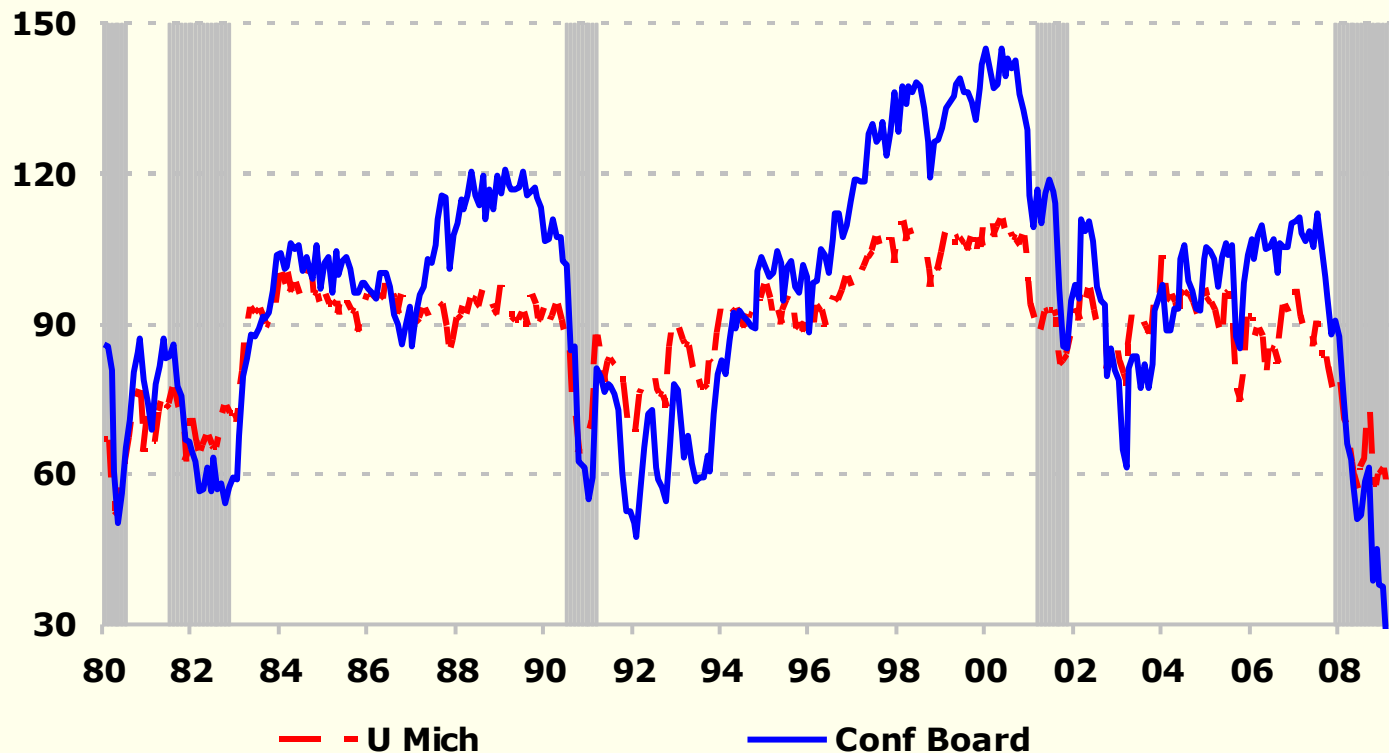
Consumer sentiment reflects uncertainty about the economy

Conference Board measure is at a record low

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



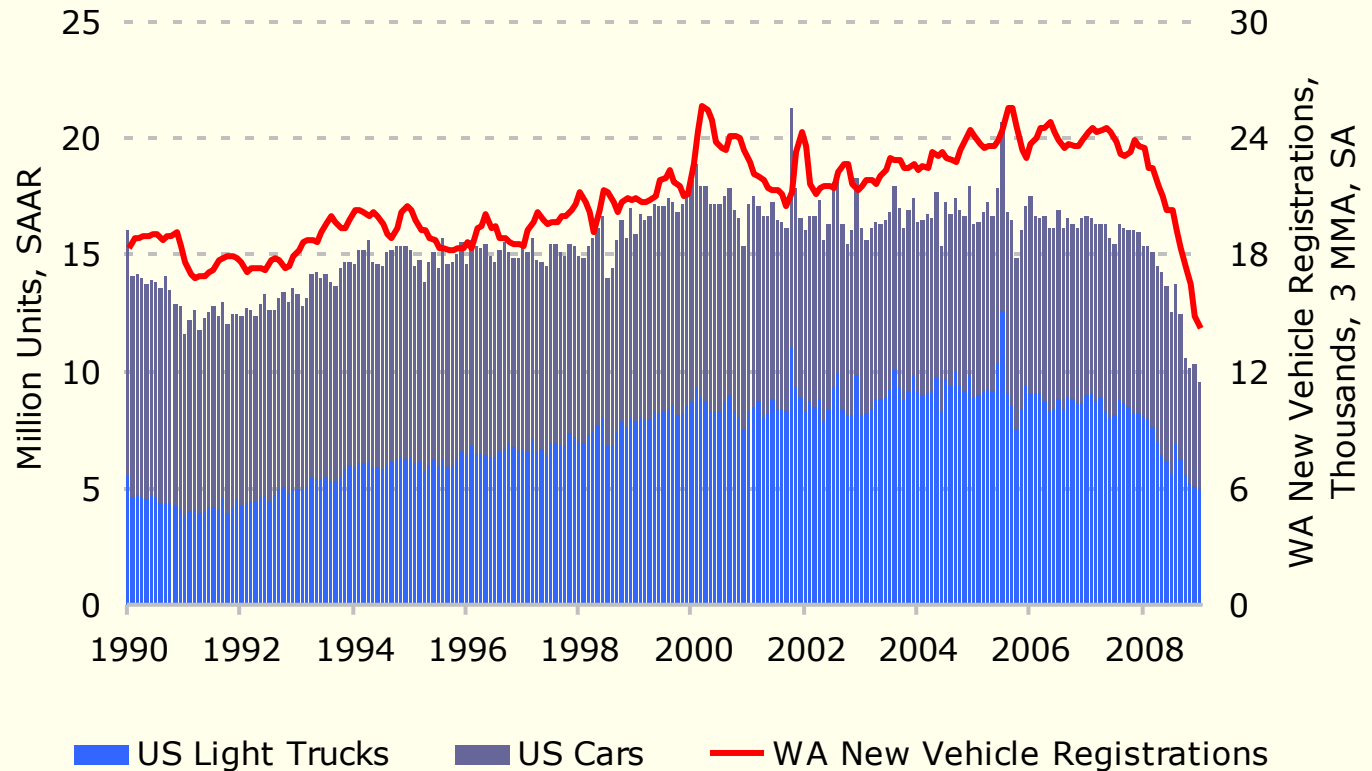
Source: University of Michigan; Conference Board; data through February 2009.

Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009



Automotive sales have tumbled nationally, and in Washington

The rate of decline in WA auto sales has doubled since our November forecast



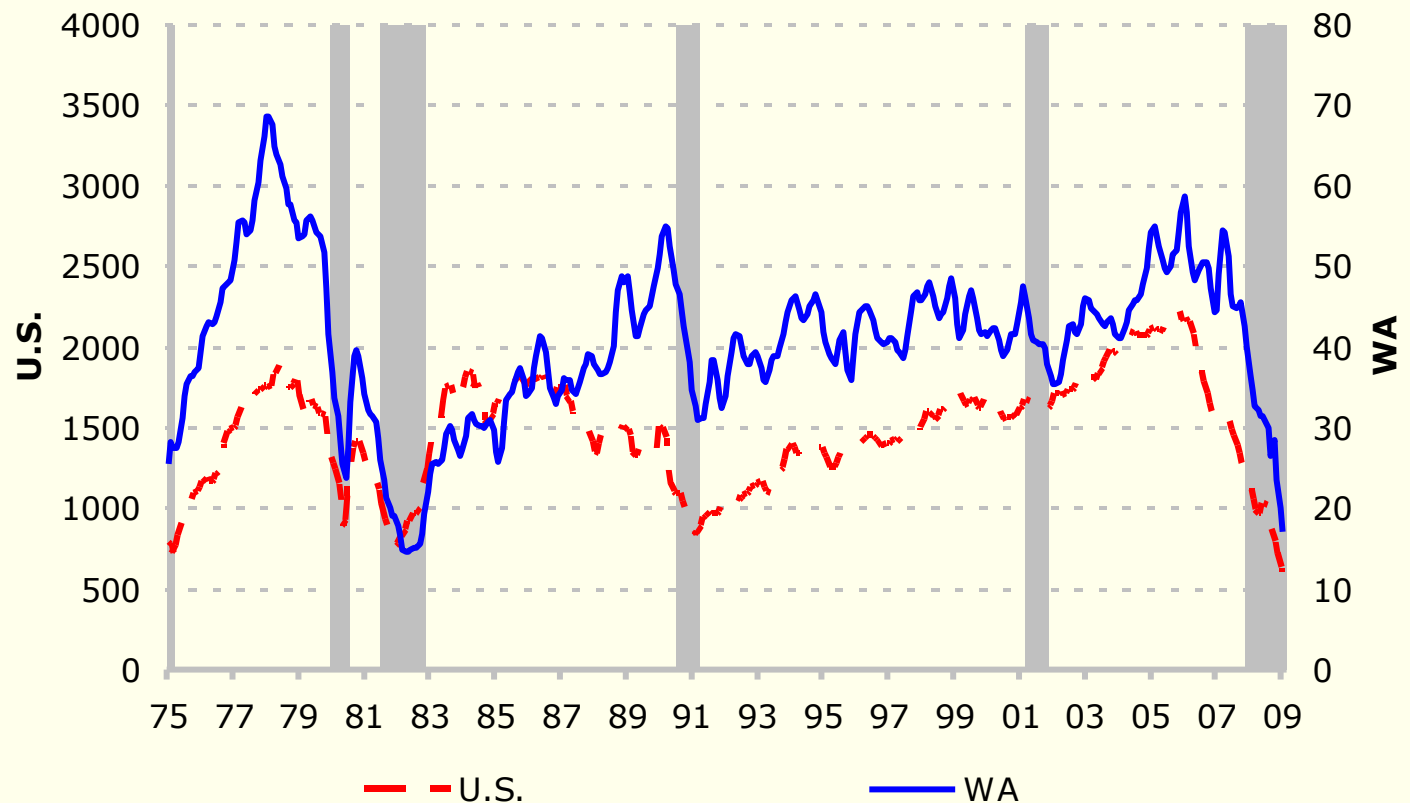
Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009

Source: Autodata Corporation, data through February 2009; WA DOL, data through January 2009



State housing permit activity lagged the nation, but has now slowed sharply

Thousands, annualized units, 3 MMA, SA



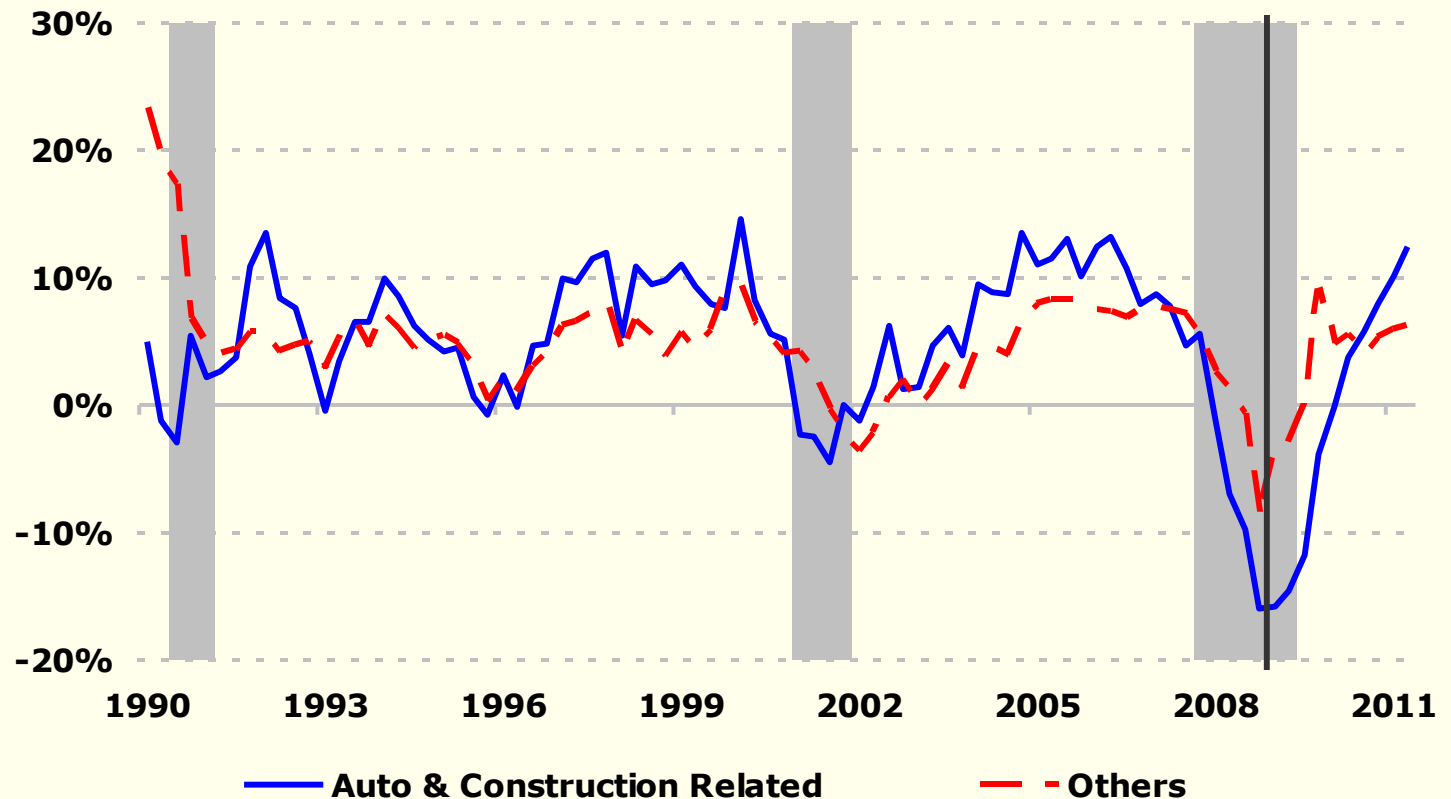
Source: Census Bureau, U.S. data through Feb 2009; WA data through Jan 2009



The decline in taxable activity is mostly in the automotive and construction related sectors

Retail
Sales Tax

Percent change, year ago



Source: ERFC forecast; actual data through 2008Q4

Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009

Slide 9

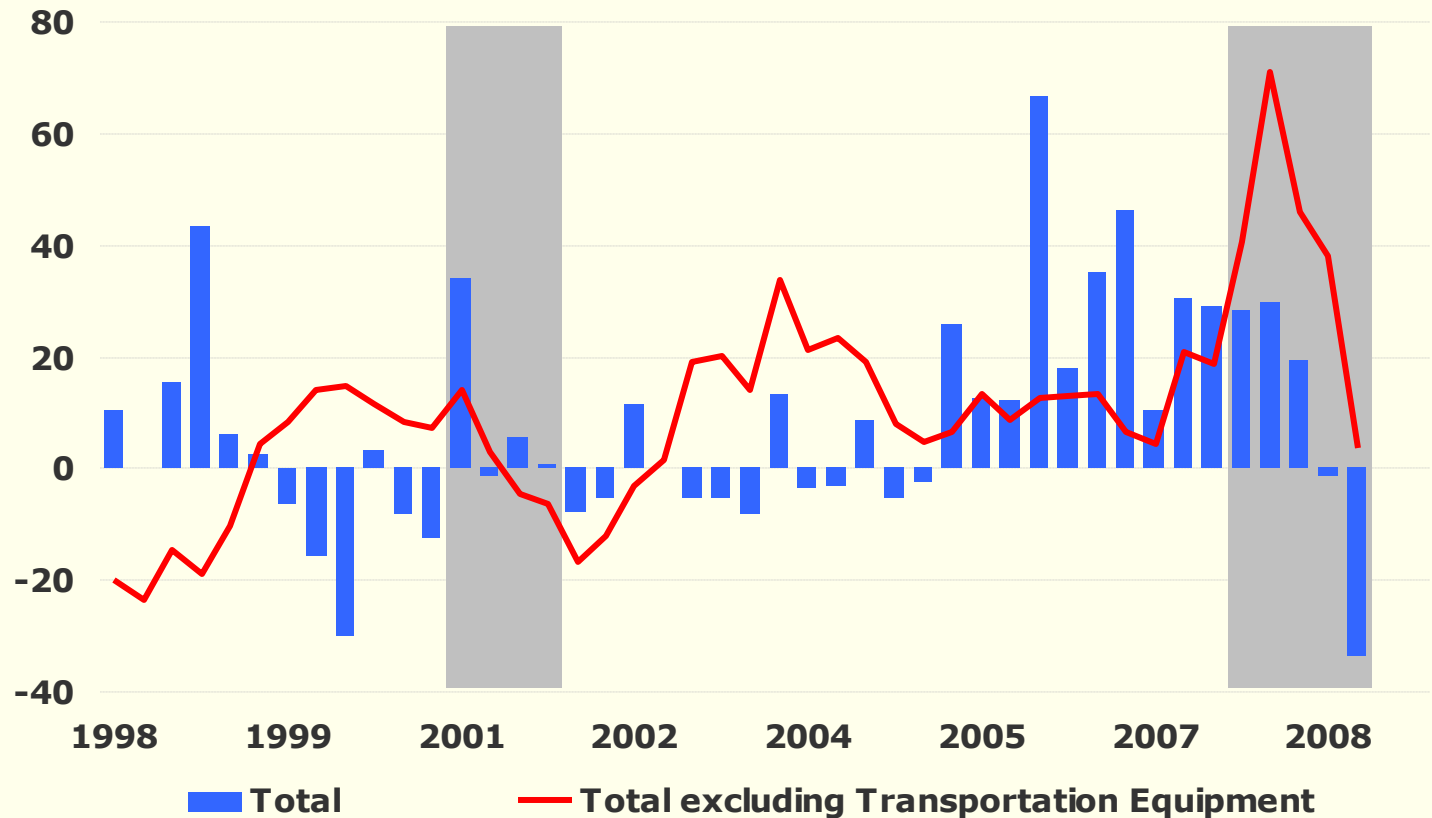
Washington State Economic and Revenue Forecast Council



WA exports are plummeting

2008 Q4
decline in
transporta-
tion
equipment
reflects
impact of
Boeing
strike

Percent Change, year ago

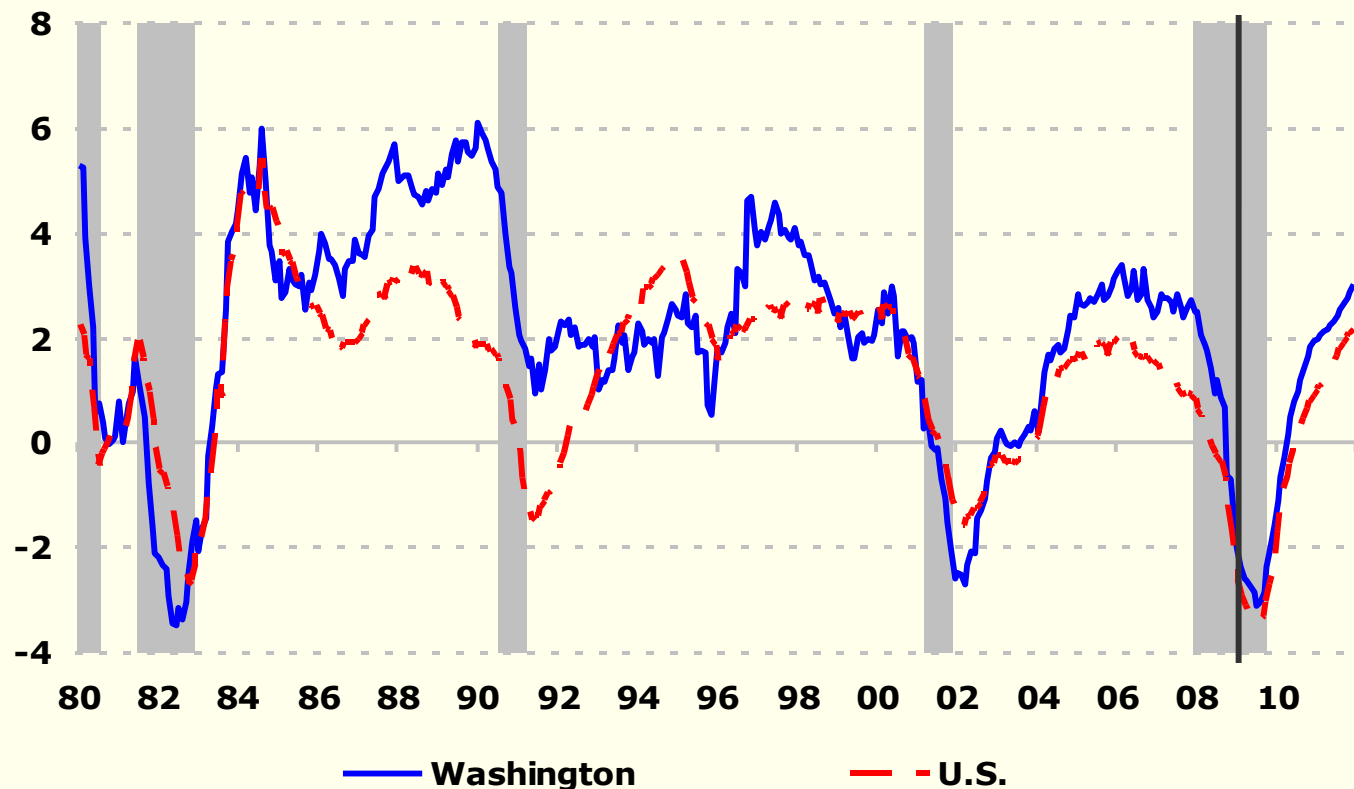


Source: Wiser Trade Data, through 2008 Q4



WA employment will recover at about the same rate as the nation

Percent change, year ago

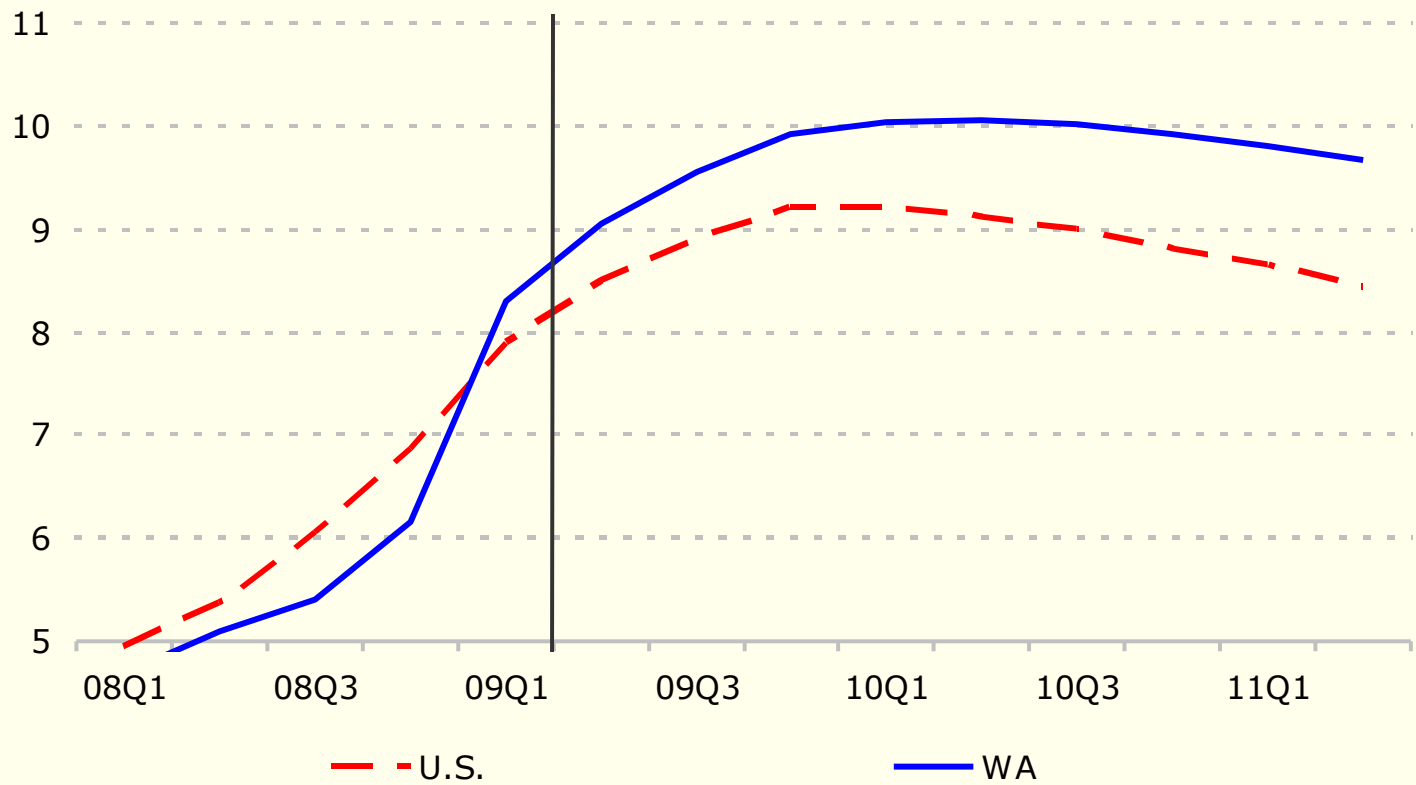


Source: ERFC March updated forecast, actual through January 2009



Washington's unemployment rate will now continue to exceed that of the U.S. during this recession

Percent of Labor Force

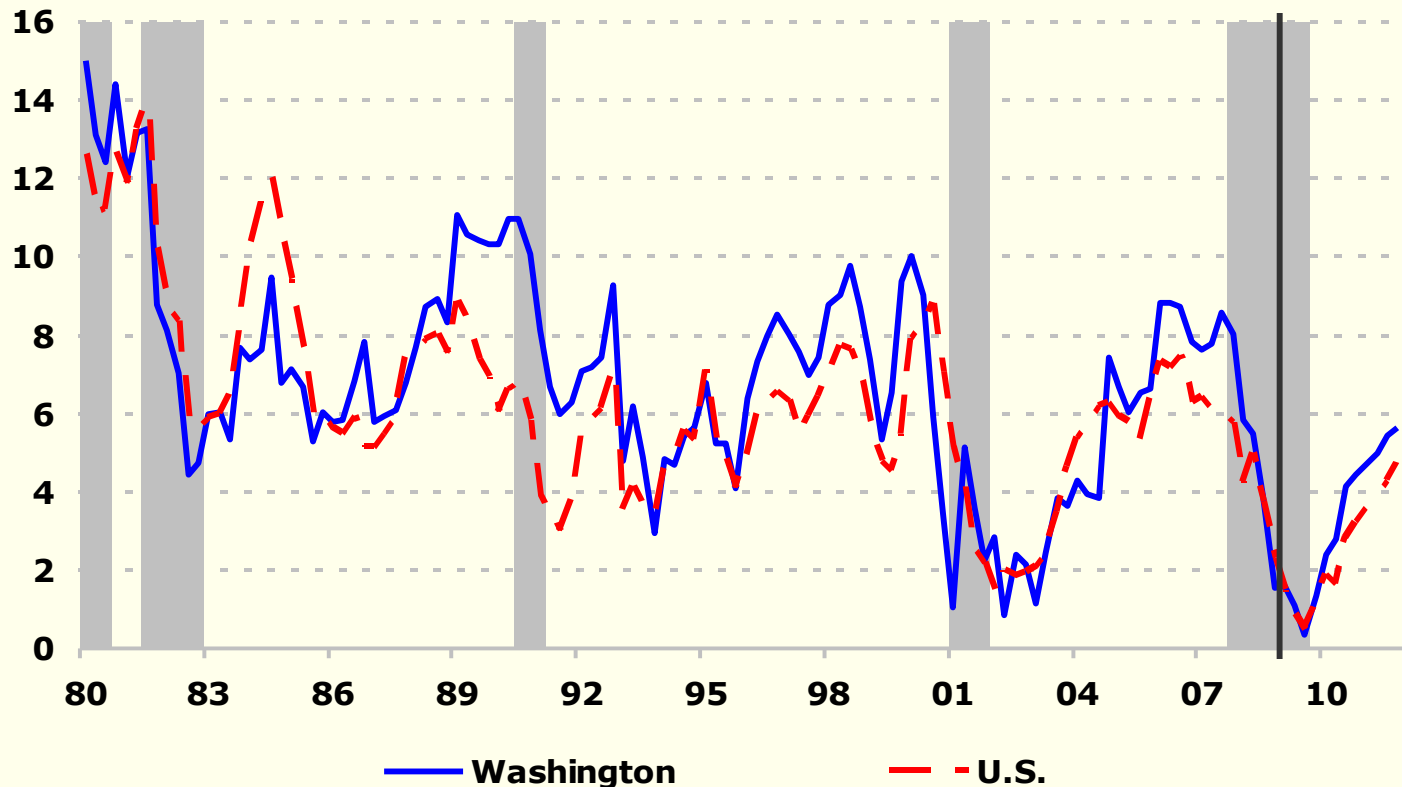


Source: ERFC forecast; Bureau of Labor Statistics



The recovery in WA personal income growth is expected to match the nation's

Percent change, year ago

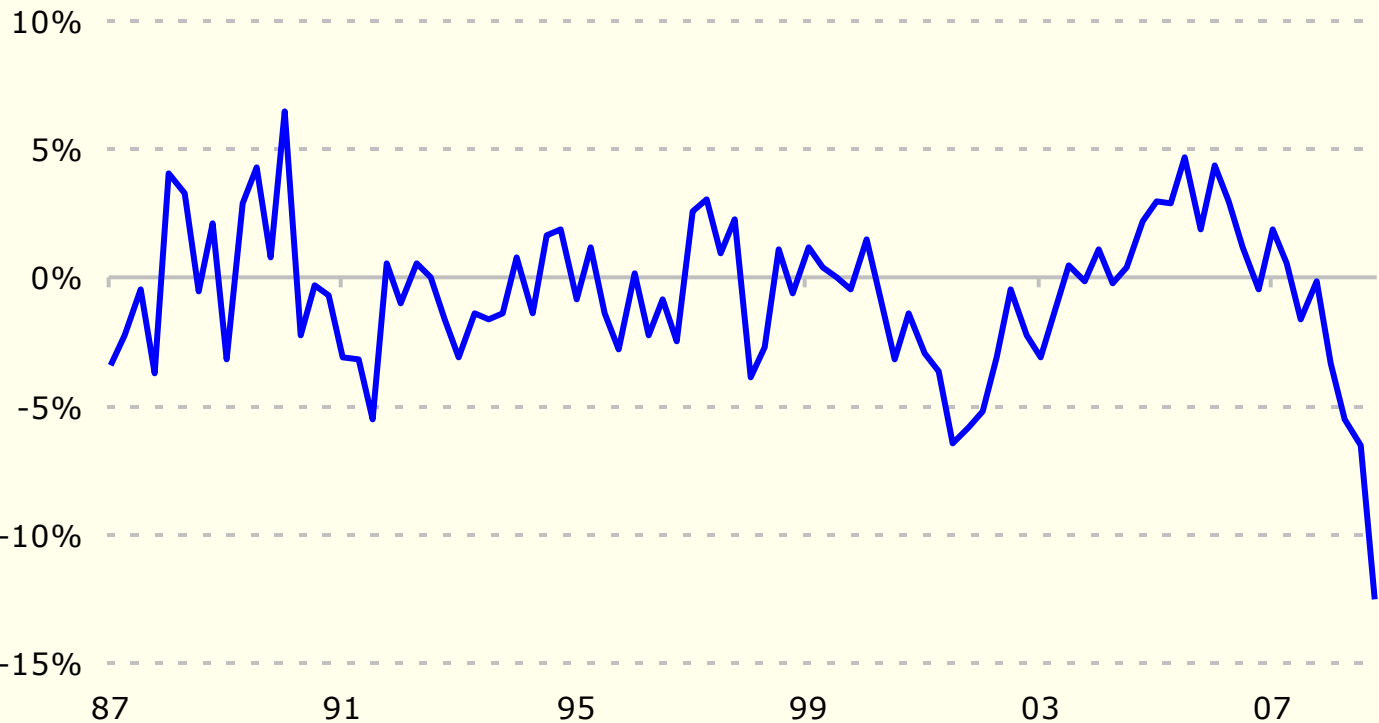


Source: ERFC forecast; actual data through 2008Q4



Revenue growth relative to income continues to drop

Growth in Net Revenue Act Collections* Relative to Growth in State Personal Income



* Adjusted for new legislation and special factors

Source: ERFC; data through 2008Q4



Forecast changes 2007-2009 Biennium

USD Millions

	March '09 Forecast				
	<u>Nov '08 Forecast</u>	<u>Forecast Change</u>	<u>Non- economic Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$27,765	(\$650)	(\$74)	27,041	(\$724)
All other agencies	\$862	(\$20)	\$9	\$850	(\$12)
Total GFS	\$28,627	(\$670)	(\$66)	\$27,891	(\$736)

* Detail may not add to total due to rounding

Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009



Forecast changes 2009-2011 Biennium

USD Millions

	March '09 Forecast				
	<u>Nov '08 Forecast</u>	<u>Forecast Change</u>	<u>Non- economic Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$29,350	(\$1,970)	(\$79)	27,302	(\$2,048)
All other agencies	\$720	(\$94)	\$17	\$643	(\$77)
Total GFS	\$30,070	(\$2,064)	(\$61)	\$27,945	(\$2,125)

* Detail may not add to total due to rounding

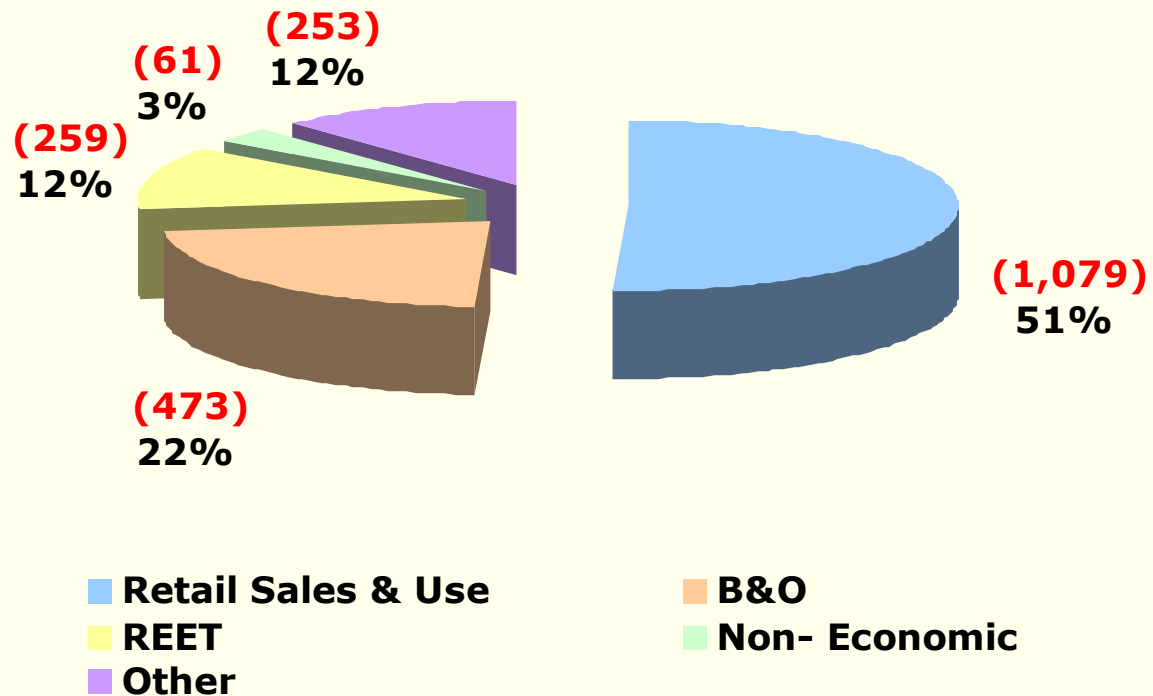


Composition of the forecast change for the 2009-11 biennium

Total
change
from
November
forecast:

(\$2.1 bill.)

USD Thousands

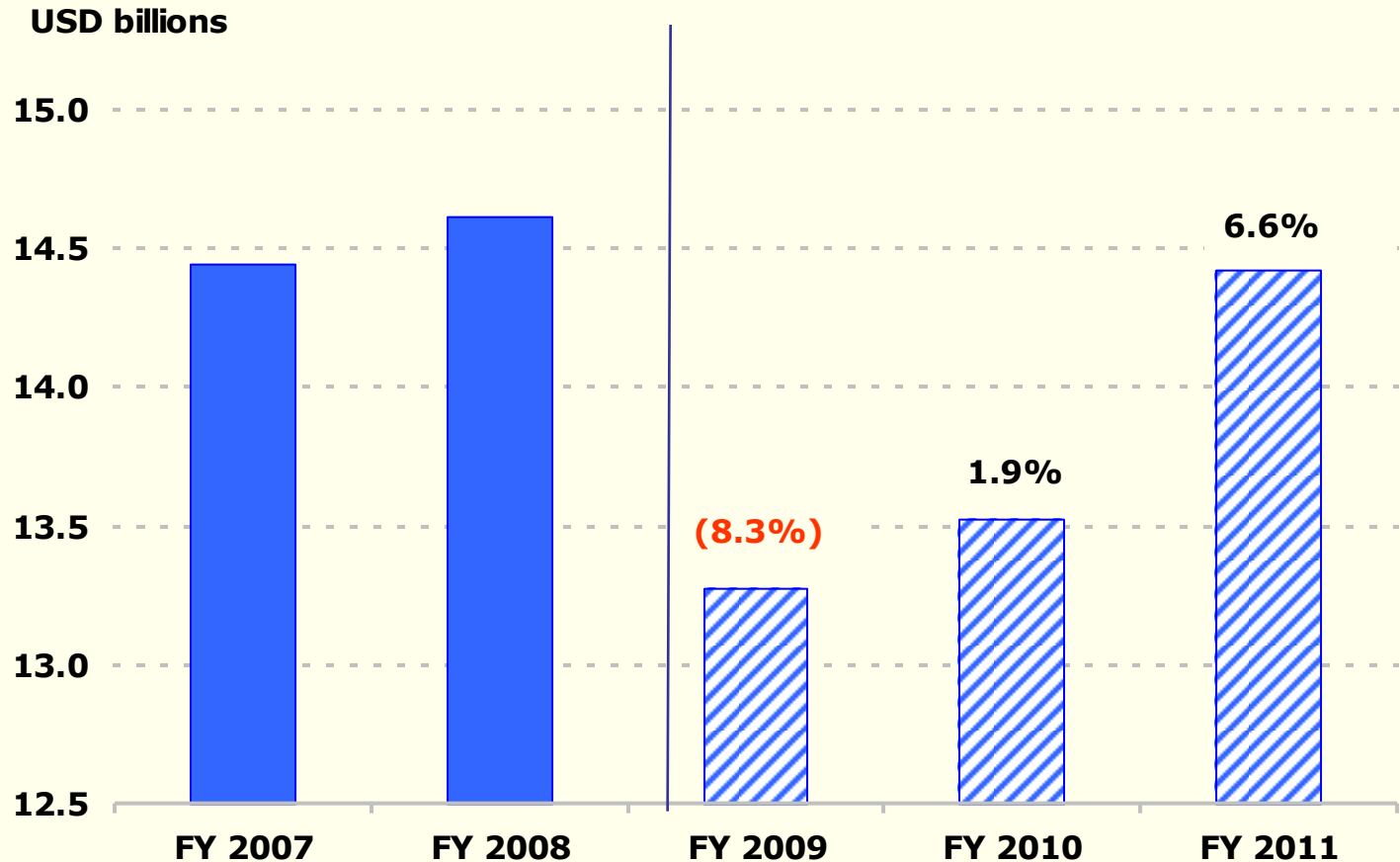


Source: ERFC forecast, March 2009

Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009



General Fund forecast by fiscal year



Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009

Source: ERFC forecast, March 2009

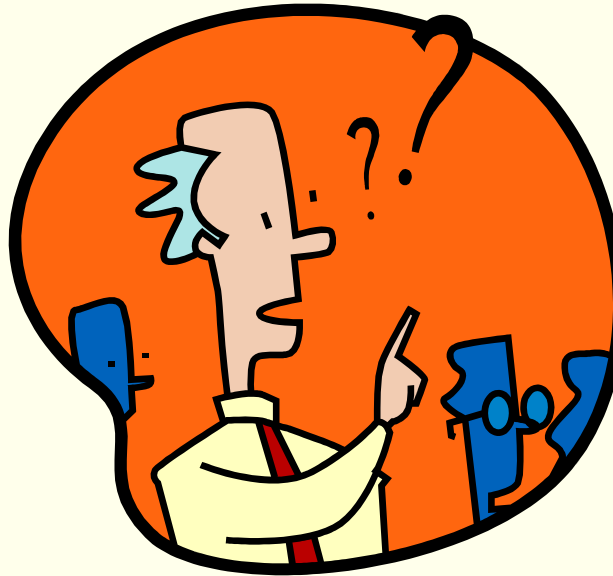


Conclusion

- Washington's economy is expected to recover at the same time as the U.S. economy – we no longer expect us to lead the nation
- The recession is expected to end in the third quarter of 2009, followed by weak growth into the middle of 2010.
- Job losses are expected to continue into the recovery
- The key to the recovery, and the source of the greatest downside risk to the forecast are the assumptions about a return to some kind of normalcy in credit markets around the third quarter of this year.



Questions



**Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912**

**www.erfc.wa.gov
360-570-6100**

Arun Raha
WA Economic &
Revenue Outlook
26 Mar 2009